

EMERGING MULTINATIONALS FROM CHINA

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RECENT RESEARCH

- (1) S. Globerman, M. W. Peng, & D. Shapiro, 2011, Corporate governance and Asian companies, *Asia Pacific Journal of Management*.
- (2) M. W. Peng, S. L. Sun, & D. Blevins, 2011, The social responsibility of international business scholars, *Multinational Business Review*.
- (3) M. W. Peng, 2012, The global strategy of emerging multinationals from China, *Global Strategy Journal*.
- (4) M. W. Peng, 2012, Why China's investments aren't a threat, *Harvard Business Review*.
- (5) S. L. Sun, M. W. Peng, B. Ren, & D. Yan, 2012, A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs, *Journal of World Business*.
- (6) M. W. Peng & R. Parente, 2012, Institution-based weaknesses behind emerging multinationals, *Revista de Administração de Empresas*
- (7) R. Hoskisson, M. Wright, I. Filatotchev, & M. W. Peng, 2013, Emerging multinationals from mid-range economies: The influence of institutions and factor markets, *Journal of Management Studies*.

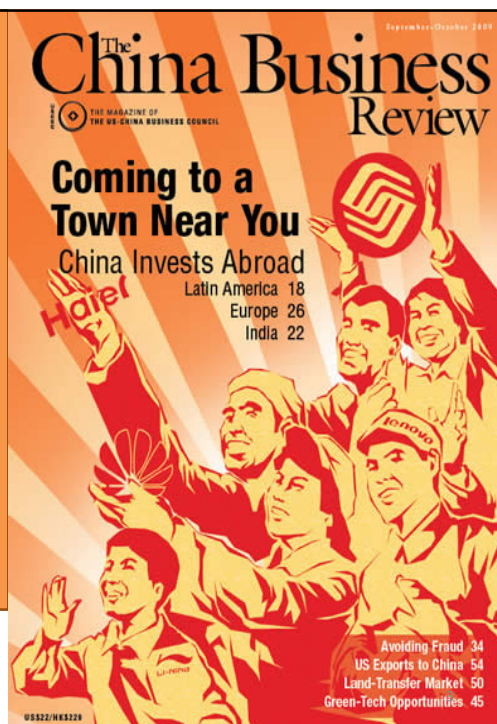


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China goes global

The significant outward foreign direct investment (OFDI) made by Chinese multinational enterprises (MNEs)

(keynote @ Harvard conference in Oct 2009)



QUIZ 1

Which of the following two cities has a larger number of Fortune Global 500 company headquarters?

- Beijing
- New York



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4

QUIZ 1 ANSWER

- Beijing (30)
- New York (19 in NYC + 3 more in suburbs)



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5

QUIZ 2

- Which emerging economy of the BRIC group has the largest amount of outward foreign direct investment (OFDI) stock?
 - A: Brazil
 - B: Russia
 - C: India
 - D: China



6

QUIZ 2 ANSWER

- Which emerging economy of the BRIC group has the largest amount of outward foreign direct investment (OFDI) stock?
 - A: Brazil #3
 - B: Russia #1
 - C: India #4
 - D: China #2



7

<p>BW (7/27/2009) “Is China Inc. intent on buying the world? It sure looks that way”</p> <p>But, REALLY? Total Chinese OFDI stock @ \$170 B is only 1/30th of US OFDI (1% of world total)</p> <p>[Now about 1/12th of US and 1.7% of world total]</p>	<p><small>The McGraw-Hill Companies</small> <small>JULY 27, 2009 BUSINESSWEEK.COM</small></p> <h1 style="background-color: red; color: white; padding: 5px;">BusinessWeek</h1> <h1 style="font-size: 4em; margin: 0;">CHINA</h1> <h2 style="color: red; font-size: 2em;">GOES SHOPPING</h2> <p style="font-size: 0.8em;">Forget Treasuries. It's corporate assets Beijing covets now</p> 
	

Media sensation continues
(11/11-19/2010)

The math simply doesn't add up if 1% of global OFDI can "buy up" the world



Fortune (10/28/2009)




The new (Western) media norm becomes a *myth*, which takes on a life of its own



The Beijing Consensus
(Ramo, 2004)

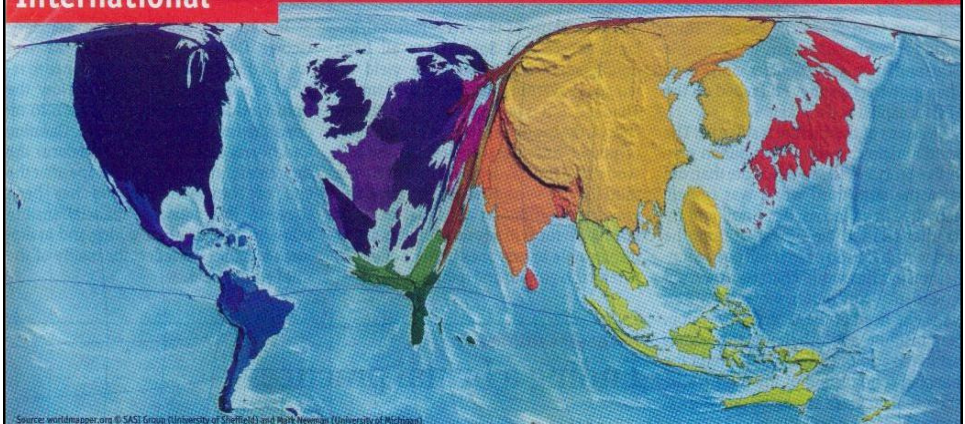
versus

The Washington Consensus
(allegedly broken thanks to the 2008 crisis)





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International The Economist June 12th 2010



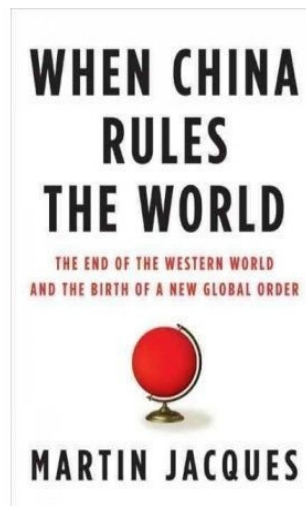
Source: worldmapper.org © SASI Group (University of Sheffield) and Mark Newman (University of Michigan)



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The “China on steroids” literature
(a term coined by
David Lampton)

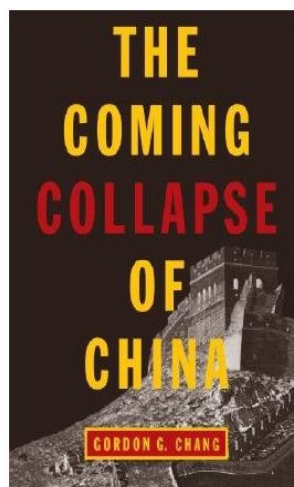
Jacques (2009) →
But, 10 yrs ago . . .



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The “China on the
verge of collapse”
literature
(Chang, 2001)

Despite the
provocative title, this
book is not alone



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As recently as in 2007, China was viewed as “so broken” (thanks to toy recalls, endemic corruption, and spreading eco-crisis)

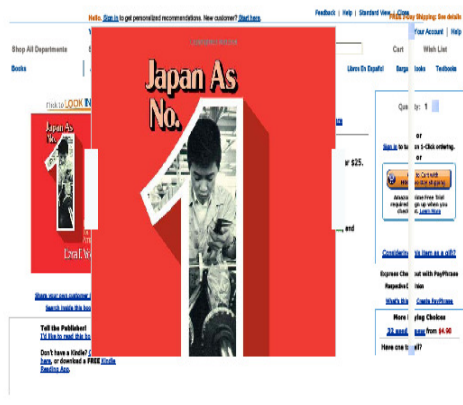


What happened to the “Japan on steroids” literature (*Japan as No. 1—1979*)?

Did Japan “take over” America (circa 1989)?



Amazon.com: Japan as Number One: Lessons for America (9781583484104): Ezra Vogel... Page 1 of 3



My advice: Here is a better way to view the complex relationship: The **ODD COUPLE** (the G2) who have to work (sleep!) together

The most important relationship today and tomorrow



The Economist
OCTOBER 24TH-30TH 2009 Economist.com

The pope's power grab
California's new water deal
Crouching dollar, rising debt
The technology industry reboots
End of the dinosaurs: some news at last

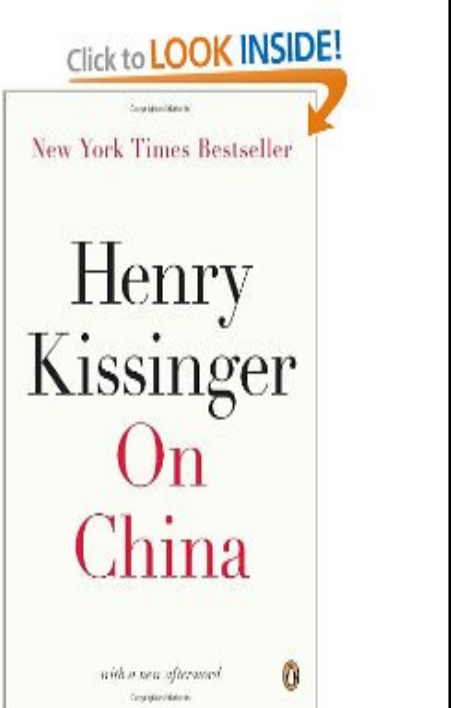
The odd couple

A 14-PAGE SPECIAL REPORT ON CHINA AND AMERICA



The best (and most profound) recent China book I'd recommend:
Kissinger: On China (2011)

“Conflict is a choice, not a necessity”




Click to **LOOK INSIDE!**

New York Times Bestseller

Henry Kissinger

On China

with a new afterword



David Shambaugh
(2013) key point:

China is a *partial*
power, not a
comprehensive power.

My extension:
Chinese MNEs are
partially strong and
partially weak



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**CHINA
GOES GLOBAL**

THE PARTIAL POWER



DAVID SHAMBAUGH

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Emerging multinationals from China: Three (relatively) *unique* aspects

- The previously underappreciated role played by the domestic governments of MNEs
- The challenge of going abroad in the absence of significantly superior managerial and technological resources
- The rapid adoption of (often high-profile) acquisitions as a mode of entry



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Positive role of the Chinese government

- *Home* country government: A neglected topic:
 - Most research focuses on *host* country governments
- *Positive* role of the Chinese government
 - “Go outside” / “go global” policy
 - Supporting Chinese MNEs with real cash/loans
- Interesting links between inbound FDI-friendly policies and outbound FDI
 - Guangdong generates 20% of Chinese OFDI



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Negative role of the Chinese government

- China invests more in the British Virgin Islands in FDI stock than in the UK—7 times (!)
- BVI, in turn, invests more in China than the UK
- BVI also beats the US as a recipient of Chinese OFDI and an originator of Chinese IFDI
- Why? An *escape* from harsh home country institutional environments



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My field research @ BVI (population 21,000)



Top OFDI recipients from China & top IFDI originating economies investing in China

- Hong Kong (#1)
- British Virgin Islands (#2)
- Cayman Islands (#3 OFDI, #8 IFDI)
- A plausible hypothesis: Capital round-tripping



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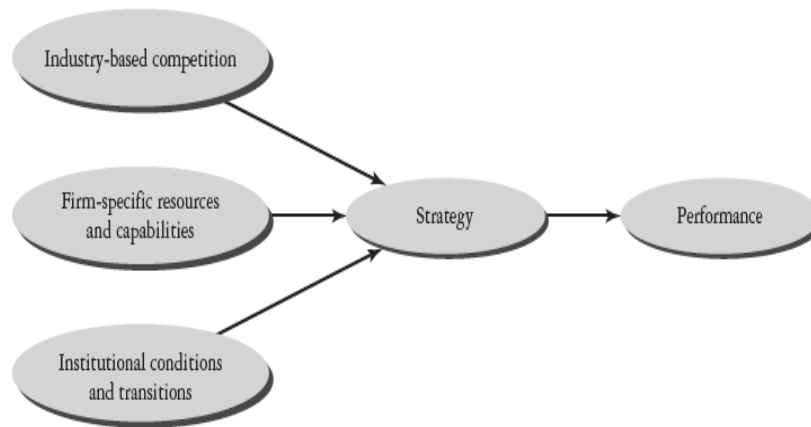
How does China research contribute to the global literature?

- An emphasis on institutions as rules of the game
- In this case, an emphasis on the role of domestic governments at various (central and provincial) levels



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Theoretical contribution: an *institution*-based view → A strategy tripod (Peng et al., 2008 *JIBS*, 2009 *AMP*)



China is *not* that unique

- QUIZ:
- The top 1 OFDI recipient countries from multinationals from Brazil, Russia, and India?
- The top 1 IFDI originating countries investing into Brazil, Russia, and India?
- Toward an institutional *weakness*-based theory of FDI (Hoskisson et al., 2013, *JMS*; Peng & Parente, 2012, *RAE*)



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Going abroad without superior managerial and tech resources

- A puzzle under the current theory (derived from MNEs from developed economies)
- Dragon multinationals: Mathews (2006, *APJM*)
- An LLL framework (as opposed to OLI)
 - Linkage
 - Leverage
 - Learning



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CASE: Huawei

- US headquarters in Plano, Texas
- Cisco vs. Huawei (2003-2004)
- US Congressional report alleged it to be a potential “national security threat” (2012)



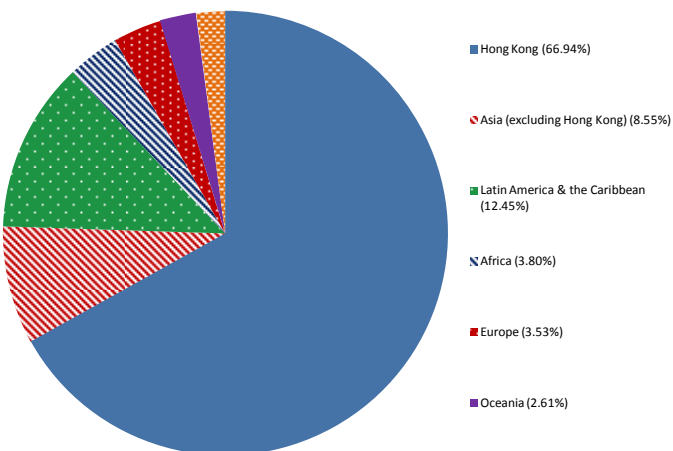
Managerial resources are still clearly lacking

- Not your average manager: China has plenty
- Internationally experienced, confident, and capable managers comfortable interacting with locals: How many does China have?
 - *They are all busy studying my books 😊*
- A question from my Chinese EMBA's: What? We can't talk to our competitors? Why?!
- Regional distribution shows signs of weakness



Chinese OFDI

- Despite headlines about Africa, 67% goes to HK and the rest of Asia gets 9%
- Africa only 6%
- Latin America gets 13%
- But BVI + CI get 12% (!)



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Rapid adoption of (often high-profile) acquisitions as entry mode

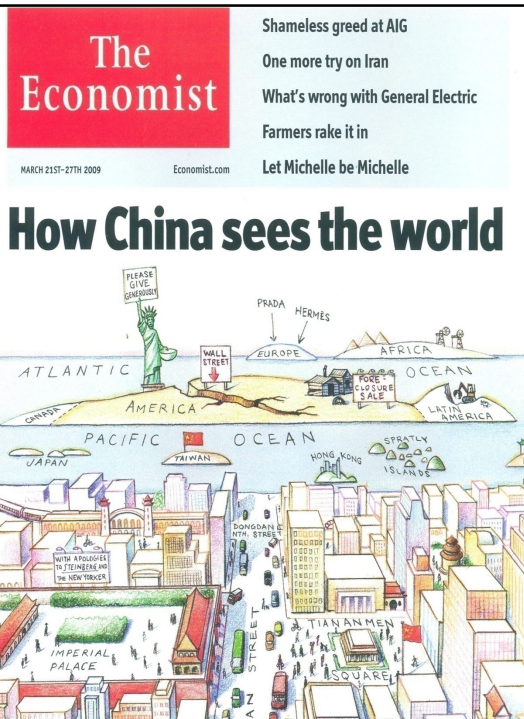
- Typical evolution of entry modes: Exports → JVs/alliances → greenfields and/or acquisitions
- Most non-Chinese MNEs in China have followed this progression (they are the sources of learning and observation of Chinese MNEs)
- But, emerging Chinese MNEs: Buy, buy, buy



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Acquisition targets

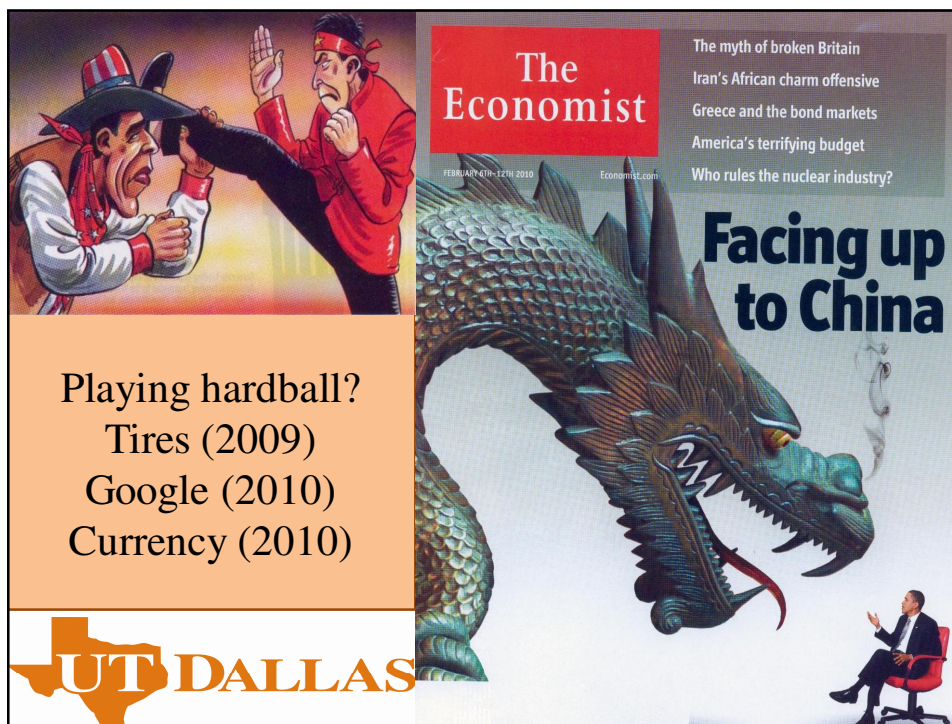
- Tech and financial services firms in the United States
- Brands in Europe
- Resources in Australia, Africa, Canada, and Latin America



How the world sees China

- Historical racism, modern prejudice
- Chinese arrogance (+ ignorance) does not help
- Chinese firms eyeing US banking and oil assets: No way!
- Chinese bid for Rio Tinto: No, thanks!



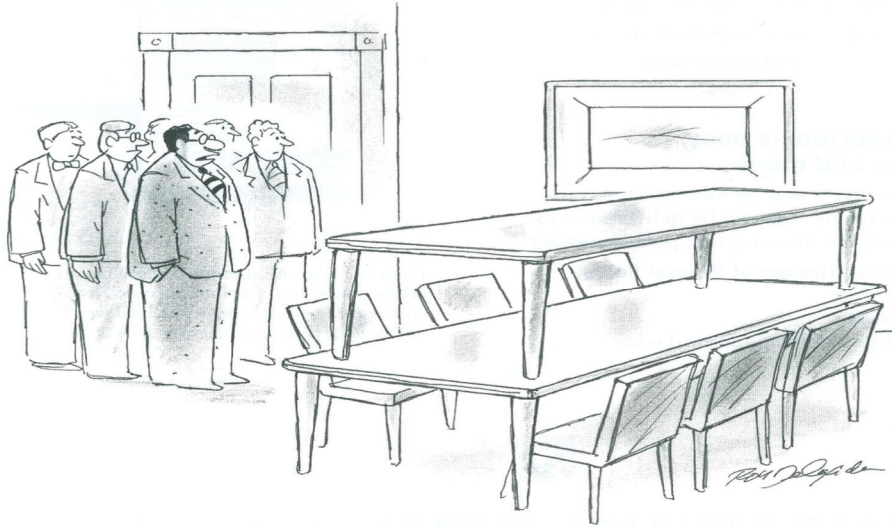


Will Chinese OFDI-based M&As do better than global average? *Unlikely!*

- Preacquisition: Overpayment in bidding
 - National pride: “Takeover nationalism” (Hope et al., 2009)
 - Managerial hubris and poor corporate governance
- Postacquisition: Integration
- Case study: TCL/Thomson
- Large sample study: Chinese investors have very little confidence in listed companies’ OFDI/M&As (Chen & Young, 2010 *APJM*)



A challenge in post-acquisition integration



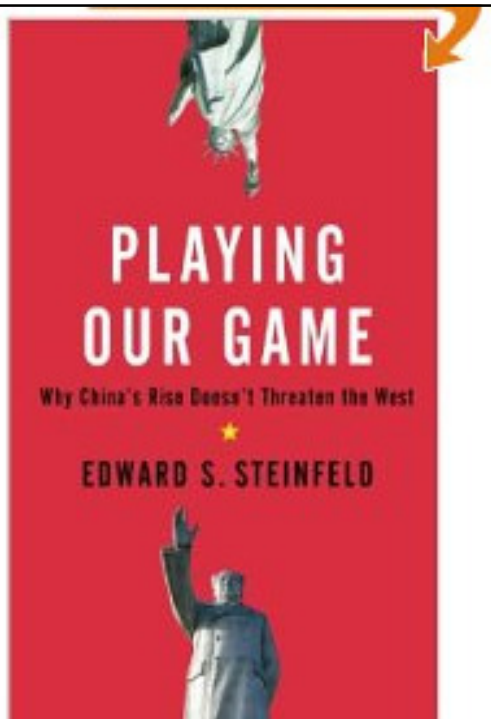
"As you know, some details of the new merger have yet to be resolved."

How to play the cards?



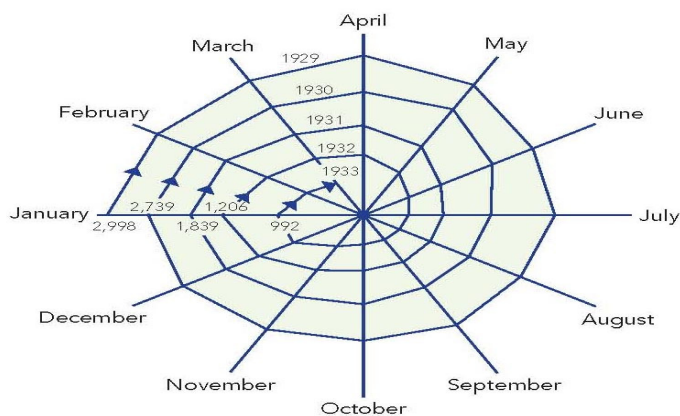
Edward Steinfeld
(2010): China is
playing our
(Western/capitalist)
game, which fortifies
incumbents'
advantage

(How much \$ does China
make assembling iPhone?)



The danger of protectionism between the G-2: Destroying *global* confidence

FIGURE 8.1 DOWN THE TUBE: CONTRACTION OF WORLD TRADE DURING THE GREAT DEPRESSION (1929-1933, MILLIONS \$)



Source: C. Kindleberger, 1973, *The World in Depression* (p. 170), Berkeley: University of California Press.

The Economist editor added the word “mad” at the last minute

Trade wars are *lose-lose* (the mutual self-interest of the world’s largest importer and exporter lies in harmonious trade relationships)



UT DALLAS

Trade and investment are more than economic, they serve to preserve world peace—the ultimate CSR

- Buyers and sellers are not likely to kill each other
 - When the US cut off oil sales to Japan (in protest of Japanese aggression in China), Japan attacked Pearl Harbor
- The Dell theory of world peace (Thomas Friedman)



Advice to policymakers

- Chinese are not going to take over the world
 - Chinese OFDI is only 1.7% of the global total
 - Of which 4% comes to North America and 13% comes to South America (but, remember, of which 12% goes to BVI and CI)
- Canada's "net benefit" test: CNOOC/Nexen \$15B deal in 2013—pragmatic nationalism
- Chinese outbound FDI necessitates no additional, specific legislation (Globerman & Shapiro, 2009 *APJM*)
 - The right policy toward China's FDI: "YES, UNLESS"



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Still punching *below* its weight

- Of all countries holding FDI stock in the US, China holds a trivial 0.1%
 - UK (20%), Japan (12%), Germany (12%)
 - China's OFDI in the US "still plays in the same league as New Zealand and Austria" (Asia Society study, 2011)
 - Until 2009, inward FDI from China was so tiny that it was recorded in official US statistics as a *rounding error*.
- Every Chinese citizen: only \$180 OFDI stock
 - Every American citizen: \$13,500
 - Global average: \$2,900



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Fortune (05/24/2010):
 “In states like TX, SC,
 and NV, China is
 building factories
 and—lo and
 behold!—creating
 American jobs”

When Chinese deal
 failed, HUMMER had
 to be *liquidated*

UT DALLAS

MAY 24, 2010
 FORTUNE.COM

40 YEARS

China’s real-assets OFDI is healthy and mutually beneficial

- If China doesn’t export capital, too much money stays at home → inflation
- If China exports capital but only buys US T-bills → Even higher US national debt (and dependence on China)
- If China exports capital and acquires US companies (real assets) → US corporate asset prices go up and jobs are created



What if Congress has its wish, the yuan appreciates?

- All of us in the US will face high consumer prices
- Wal-Mart is China's 8th largest trading partner
 - On which side will America's largest company be lobbying?
- Not likely to add a million US manufacturing jobs
 - Why Amazon Kindle cannot be made in the US?
- Hong Kong engages in fixed exchange rate policy, but China no longer does—China has a “managed float” exchange rate policy (is it “manipulation”?)
 - But HK is the world's “most liberal” economy



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Advice to managers

- Master the rules of the game
- Learn from Japanese MNEs, which had a rocky start in the US in the 1980s
 - Understand the difference between the Federal level and the state/local level
 - Avoid high-profile acquisitions
 - Have THICK skin (endurance), stick around
 - Attention span in Washington and in the media is short
 - Nobody is concerned about Japanese FDI in the US now, which supports 600,000 jobs



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Advice to managers

- Strengthen your own resources and capabilities
- Skipping the usual, progressive steps of FDI and jumping into (especially high-profile) acquisitions are like gambling—good luck!
- How about have some *private equity* groups as your alliance/acquisition partners?
 - Help reduce liability of foreignness
- In M&As, do not overpay, avoid a bidding war, focus on integration



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Advice to researchers

- The rise of China will provoke/renew interest in antidumping and antitrust—major institution-based issues that have been ignored by researchers
 - *Journal of International Business Studies* (1970-2005): Only 1 paper has “dumping” in title and abstract
 - *Strategic Management Journal* (1980-2008): Only 1 paper has “antitrust” in its title and 1 more in abstract
- Just like China-based IJV research has greatly enriched the global literature, OFDI research will significantly contribute to the institution-based view



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Advice to researchers

- The new (or final?) frontier for the growth of the (Chinese) firm (Peng & Heath, 1996 *AMR*)
 - Generic growth
 - Interorganizational alliances (such as JVs)
 - M&As (P&H 1996 said *not* feasible—was I wrong or what?)
- We do not have enough understanding on Chinese *domestic* M&As, much less about *international* M&As undertaken by Chinese MNEs
 - Chinese MNEs only closed 47% of deals
 - Indian MNEs 67% (Sun et al., 2012 *JWB*)



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CONCLUSION: Is China unique or is it a member of the global family?

- The raging debate on Chinese exceptionalism
- Do we need a Chinese theory of management?
 - If so, China being so big, do we need a *Shanghainese* theory of management? (A *Scottish* theory too?)
- We *do* need to develop an institution-based theory of MNE/FDI leveraging the story of these emerging multinationals from BRIC (EE in general)



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China is a member of the global family

Scholars need to *act local, think global*

(Peng, 2005 *APJM*; Li & Peng, 2008 *APJM*)

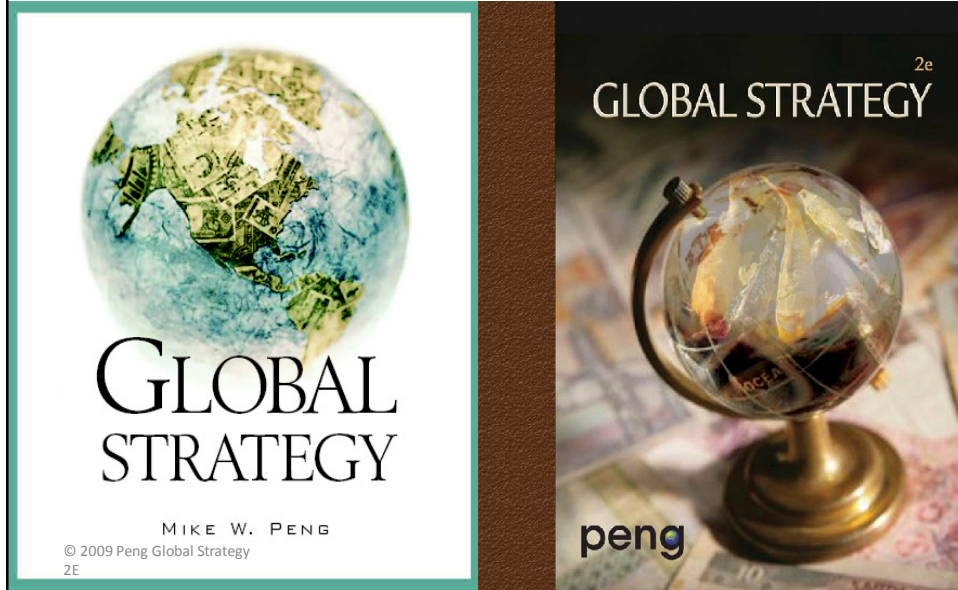
The diagram consists of several overlapping circles. A large purple circle is labeled 'Transition economies'. A large red circle is labeled 'Emerging economies'. A large green circle is labeled 'Western countries'. Within the intersection of the red and purple circles, there is a yellow circle labeled 'China'. Within the intersection of the purple and green circles, there is a black circle labeled 'India'. Within the intersection of the red and green circles, there is a light green circle labeled 'Russia'. The intersection of all three (red, purple, and green) contains the yellow 'China' circle.

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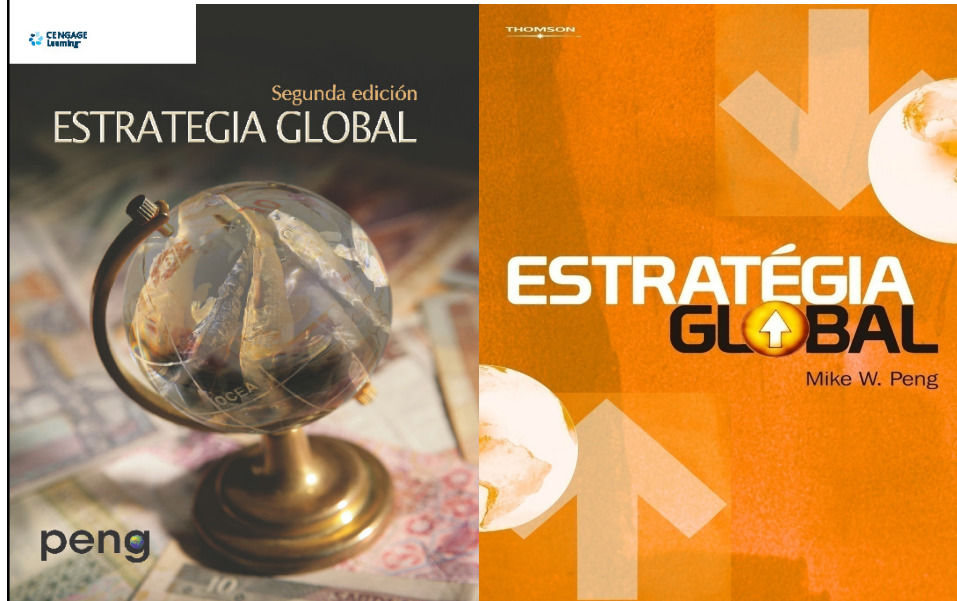
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